State Notes

TOPICS OF LEGISLATIVE INTEREST

Winter 2013

New Jobs Training Program

By Bill Bowerman, Associate Director

Introduction

Public Act 359 of 2008 amended the Community College Act, and Public Act 360 of 2008 amended the Income Tax Act to create the New Jobs Training Program. The legislation enables community colleges to provide free education and training, or retraining, through local agreements with employers to create new jobs or expand existing operations in Michigan. The program costs are funded by the capture of the State income tax associated with the new employees' wages. This article provides an overview of the program impact since 2008.

Background

The New Jobs Training Program was designed as an economic development tool. A community college district may enter into an agreement to establish a project with an employer engaged in business activities anywhere in Michigan. While the legislation allows a community college to support the costs of the program itself from tuition, student fees, or special charges fixed by the college board of trustees, a key purpose of the New Jobs Training Program is to fund program costs through income tax revenue from "new jobs" created through the local agreements.

As added by Public Act 359, section 161(d) of the Community College Act defines "new job" as a full-time job in this State that meets all of the following:

- Except as provided below, is a new, existing, or expanding business of an employer.
- Is not a job of a recalled worker, a replacement job, or any other job that existed in the employer's business within the one-year period preceding the date of an agreement.
- Is not a job that is part of an employer's business operation located in a municipality in this State, if that job existed in a business operation (or a substantially similar business operation) of the employer formerly located in another municipality in this State, the employer moved that business operation to its current location, and the employer closed or substantially reduced that former business operation.
- Results in a net increase in employment in this State for that employer.
- Pays a wage for the job that is equal to or more than 175% of the State minimum wage.

Financing and Agreement Requirements

Under the legislation, community college districts are authorized to sell revenue bonds until December 31, 2018, to finance costs of the new jobs training programs. Income taxes withheld by employers from the new jobs created support the costs of the program. As described below, the agreement between an employer and a community college must include the employer's agreement to provide money to the community college if the income tax withholding amount is insufficient to pay program costs. The aggregate outstanding obligation of all agreements cannot exceed $50.0 million in any calendar year. Community college districts are not authorized to enter into any new agreements after December 31, 2018.

Agreements with employers are required to include the following provisions:

- Program costs that may be paid from a new jobs credit from withholding, to be received or derived from new employment resulting from the project, or from tuition, student fees, or special charges fixed by the college board of trustees.
- An estimate of the number of new jobs to be created by the employer.
- A provision that fixes, on a quarterly basis, the minimum amount of new jobs credit from withholding to be paid for program costs.
- If the amount received from the new jobs credit from withholding is insufficient to pay program costs, the employer's agreement to provide money, at least quarterly, to make up the shortfall, so that the community college district receives for each quarter the minimum amount of new jobs credit from withholding that is provided in the agreement.
- The employer's agreement to mortgage, assign, pledge, or place a lien on any real or personal property as required by the community college district as security for its obligations under the agreement.
- Payment of an administrative fee to the community college district in an amount equal to 15% of the aggregate amount to be paid under the agreement.
- Other provisions the community college district considers appropriate or necessary.

Agreements under the Program

To date, the program has included 31 agreements between local public community colleges and employers. Two agreements have been terminated, and one has ended due to the time period limitations contained in the agreement. The projected new jobs created from the agreements total 8,122. The outstanding balance from current agreements totals $42.8 million, leaving $7.2 million for future agreements. The Department of Treasury reports that through the end of 2012, $4.6 million in State income tax withholding had been diverted from the State and paid to community colleges for costs they incurred. Due to the initial demand for the program and the large dollar amounts included in some agreements (e.g., LG Chem Michigan, Inc. at $19.6 million and Dow Kokam MI, LLC at $6.2 million), the Michigan Community College Association reduced the maximum amount available for individual agreements to $200,000 and subsequently increased the maximum to $500,000.

<u>Table 1</u> provides an overview of agreements under the New Jobs Training Program.

Conclusion

The New Jobs Training Program was designed to provide a funding source to train new employees for employers that are creating new jobs in Michigan. Reductions in Federal funding for workforce training heighten the demand for this type of economic development tool. Section 713 of the Income Tax Act requires the Department of Treasury to report on the operation and effectiveness of the New Jobs Training Program and the corresponding Michigan income tax withholding requirements that fund the program. The annual reports are required to include statistics regarding the number of community colleges and employers participating in the new jobs training program; the total amount of money from a new jobs credit from withholding remitted to the community colleges; revenue bonds authorized, issued, or sold; the number of degrees or certificates awarded to program participants in the calendar year; the number of individuals who entered a program at each community college district in the calendar year, who completed the program in the calendar year, and who were enrolled in a program at the end of the calendar year; and the number of individuals who completed a program and were hired by an employer to fill new jobs. As shown in Table 1, agreements in place are designed to generate 8,122 new jobs in the State of Michigan. Whether the New Jobs Training Program is actually effective in creating new jobs (i.e., whether these new jobs would have been created without the program) is the question that needs to be addressed before the program is expanded or continued after December 31, 2018.

Table 1

Community College New Jobs Training Program

College/Business	Industry	Projected New Jobs	Agreement Amount	State Income Tax Withholding Diverted	Total Outstanding
Delta					
Dow Kokam MI, LLC	Motor vehicles and equipment manufacturing	750	$6,190,048.00	$323,664.87	$5,866,383.13
Eco Bio Plastics	Paper shredding technology	30	200,000.00	0.00	200,000.00
Grand Rapids					
Energetx[1)]	Miscellaneous manufacturing	N/A	N/A	0.00	0.00
Haworth	Partitions, shelving, lockers, office & store fixtures	100	551,378.36	490,738.61	60,639.75
Transmatic Inc.	Miscellaneous fabricated metal products	70	1,023,195.00	99,172.70	924,022.30
Farmers Group Inc.	Insurance	1,289	5,692,279.00	1,204,655.30	4,487,623.70
Johnson Controls SAFT	Motor vehicles and equipment manufacturing	130	2,047,690.00	359,068.55	1,688,621.45
Autocam Corporation	Screw machine products	15	213,429.00	45,012.40	168,416.60
LG Chem Michigan, Inc.	Motor vehicles and equipment manufacturing	3,123	19,630,500.00	263,897.58	19,366,602.42
Altronics Energy	Alternative energy	51	200,000.00	0.00	200,000.00
Jackson					
ADCO Products, Inc.[2)]	Miscellaneous chemical products	32	70,248.51	44,863.52	0.00
BioDri Michigan[1)]	Sanitary services/Alternative energy	N/A	7,364.58	7,364.58	0.00
Great Lakes Industry	Miscellaneous fabricated metal products	51	184,964.85	50,601.72	134,363.13
LifeWays	Miscellaneous health and allied services	25	275,195.00	56,094.25	219,100.75
TAC Manufacturing	Precision machining and metal spinning services	12	48,441.60	0.00	48,441.60
LifeWays	Miscellaneous health and allied services	35	104,660.97	17,476.18	87,184.79
Hornet Manufacturing	Fabricated metal products	33	46,897.42	0.00	46,897.42
Lansing					
General Motors Lansing Delta Twp.	Motor vehicles and equipment manufacturing	1,100	1,333,938.00	676,835.15	657,102.85
URV USA	Engines and turbines	276	200,000.00	0.00	200,000.00
Monroe					
Ventower Industries	Miscellaneous fabricated metal products	150	507,000.50	42,427.12	464,573.38

Community College New Jobs Training Program

College/Business	Industry	Projected New Jobs	Agreement Amount	State Income Tax Withholding Diverted	Total Outstanding
Mott					
General Motors - Mott	Motor vehicles and equipment manufacturing	82	200,000.00	186,424.45	13,575.55
Muskegon					
ADAC Automotive	Automotive supplier	50	200,000.00	0.00	200,000.00
Northwestern					
Electro-Optics Technology, Inc.	Engineering, laboratory, scientific and research instruments	13	80,500.00	51,304.86	29,195.14
Century Inc.	Metal working machinery	35	199,622.00	76,434.32	123,187.68
Oakland					
Dokka Fasteners, Inc.	Screw machine products	76	928,050.00	157,457.62	770,592.38
Meritor Heavy Vehicle Systems, LLC	Wholesale motor vehicle equipment	125	1,684,007.10	103,111.71	1,580,895.39
WABCO North America	Motor vehicles and equipment manufacturing	121	1,911,170.05	29,796.14	1,881,373.91
Denso International America	Motor vehicles and equipment manufacturing	169	2,961,250.00	239,141.81	2,722,108.19
Oxus America, Inc.	Medical and dental instruments and supplies	38	340,167.70	10,047.75	330,119.95
EMAG, LLC	Manufacturing systems for precision metal components	21	200,000.00	11,763.42	188,236.58
Schoolcraft					
Changan US Research	Motor vehicles and equipment manufacturing	120	199,273.00	15,527.39	183,745.61
Total		**8,122**	**$47,431,270.64**	**$4,562,882.00**	**$42,843,003.65**

[1] Terminated agreements. Energetx's initial agreement amount was $646,300; BioDri Michigan's initial agreement amount was $3,430,910.
[2] Agreement duration completed. $25,384.99 was returned to available funds for new agreements.

Sources: Michigan Community College Association 1/9/2013 and Michigan Department of Treasury (State Income Tax diverted) 1/22/13

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TOPICS OF LEGISLATIVE INTEREST

Winter 2013

Medicaid Enrollment Growth: 1999-2012
By Steve Angelotti, Associate Director

In March 2005, the Senate Fiscal Agency (SFA) published an Issue Paper written by fiscal analyst David Fosdick entitled, "Medicaid Enrollment in the State of Michigan 1999-2004". The paper examined the significant enrollment growth in the Medicaid program from its low point in 1999 through the months leading up to the publication date.

The paper examined overall Medicaid enrollment growth, growth by eligibility category (nondisabled vs. disabled), and county and regional growth. As eight years have passed since the publication of the original paper and Medicaid enrollment has continued to grow, this is a good time to take another look at the trends.

Overall Medicaid Enrollment Growth

Medicaid enrollment reached its low point in 1999 and 2000, having declined slowly from a peak of just over 1.2 million individuals in April 1994. The actual minimum enrollment was in January 1999, at approximately 1,055,000. For purposes of the previous SFA paper, the April 1999 figure was used as it was at the midpoint of the fiscal year, and the enrollment was only slightly higher at 1,059,919.

Enrollment began to grow at a fairly rapid pace, surpassing the 1994 peak in early 2002 and reaching 1,404,458 in October 2004, the last month of data used in the SFA Issue Paper.

As the State's economy continued to go through restructuring and a slow recovery, Medicaid enrollment continued to grow. Growth has only recently flattened, after over a decade of steady growth, with a November 2012 enrollment of 1,920,155, an 81.2% increase over the April 1999 figure.

The explanation for the growth is fairly basic: the State's economy has performed poorly over the last decade. People have lost jobs or shifted to lower-paying jobs; those jobs often do not include health care coverage or do not cover dependents, in particular children, and many of the uncovered individuals are eligible for the State's Medicaid program.

Enrollment Growth by Category

There are two broad eligibility categories in the Medicaid program: low-income nondisabled individuals, generally families, and the disabled (also known as the aged, blind, and disabled, or ABD).

The family caseload has grown much more rapidly than the ABD caseload. Family enrollment has increased from almost 728,000 in 1999 to just over 1.0 million in 2004 to 1,435,237 in November 2012, a 97.2% increase. Aged, blind, and disabled enrollment climbed from 327,000 in 1999 to 366,000 in 2004 to 484,918 in November 2012, a 48.1% increase.

Family cases tend to cost less on average than the ABD cases as nondisabled individuals are less likely to have expensive health issues. Thus, the much faster growth in family cases has helped to abate Medicaid expenditure growth. While Medicaid costs have increased significantly since 1999, the growth has been comparatively limited because the less costly portion of the caseload has grown more rapidly than the more expensive portion.

Medicaid Enrollment Growth by County

Table 1 displays Medicaid enrollment growth by county from 1999 to 2012. Due to the way county data were organized in 1999, some of the data are multicounty. For consistency's sake, the data for 2012 are reflected in the same manner. The table also includes regional data.

Given the 81.2% growth in enrollment, it is not surprising that the caseload has increased in every county in the State since 1999. However, there has been a wide variance in that caseload growth.

Table 1

Medicaid Enrollment Growth, 1999-2012

County or Counties	April 1999	October 2004	November 2012	% Increase 1999-2012	County(ies) Population 2010 Census	% Population on Medicaid Nov. 2012
Alcona	1,444	1,701	1,843	27.6%	10,942	16.8%
Alger/Schoolcraft	2,500	2,852	3,115	24.6%	18,086	17.2%
Allegan	6,830	13,134	19,298	182.5%	111,408	17.3%
Alpena	4,360	5,579	6,490	48.9%	29,598	21.9%
Antrim/Kalkaska	4,142	6,509	8,761	111.5%	40,733	21.5%
Arenac	2,570	3,193	3,635	41.4%	15,899	22.9%
Baraga	1,071	1,375	1,604	49.8%	8,860	18.1%
Barry/Eaton	9,952	16,476	23,821	139.4%	166,932	14.3%
Bay	12,662	15,920	20,307	60.4%	107,771	18.8%
Benzie/Gd Trav/Leelanau	8,266	13,255	19,631	137.5%	126,219	15.6%
Berrien	23,000	27,779	34,341	49.3%	156,813	21.9%
Branch	4,637	6,924	9,391	102.5%	45,248	20.8%
Calhoun	18,459	24,529	32,494	76.0%	136,146	23.9%
Cass	5,363	7,629	10,203	90.2%	52,293	19.5%
Charlevoix/Emmet	5,179	7,476	10,010	93.3%	58,643	17.1%
Cheboygan	3,342	4,744	5,610	67.9%	26,152	21.5%
Chippewa/Luce	5,593	7,011	7,953	42.2%	45,151	17.6%
Clare	5,341	6,870	8,353	56.4%	30,926	27.0%
Clinton/Shiawassee	9,568	14,957	21,506	124.8%	146,030	14.7%
Crawford	2,112	2,511	3,048	44.3%	14,074	21.7%
Delta/Menominee	7,663	9,636	11,139	45.4%	61,098	18.2%
Dickinson/Iron	4,472	6,103	7,159	60.1%	37,985	18.8%
Genesee	65,571	82,408	103,799	58.3%	425,790	24.4%
Gladwin	3,479	4,601	5,600	61.0%	25,692	21.8%
Gogebic	2,590	2,889	3,346	29.2%	16,427	20.4%
Gratiot	4,373	6,572	8,479	93.9%	42,476	20.0%
Hillsdale	4,231	6,887	9,748	130.4%	46,688	20.9%
Houghton/Keweenaw	4,629	5,739	6,514	40.7%	38,784	16.8%
Huron	3,682	5,410	5,816	58.0%	33,118	17.6%
Ingham	31,551	38,496	52,567	66.6%	280,895	18.7%
Ionia/Montcalm	11,629	17,936	25,175	116.5%	127,247	19.8%
Iosco	3,407	4,930	6,064	78.0%	25,887	23.4%
Isabella	5,622	7,647	10,185	81.2%	70,311	14.5%
Jackson	16,434	22,798	32,855	99.9%	160,248	20.5%
Kalamazoo	22,943	31,541	45,180	96.9%	250,331	18.0%
Kent	49,064	81,308	118,658	141.8%	602,622	19.7%

Medicaid Enrollment Growth, 1999-2012

County or Counties	April 1999	October 2004	November 2012	% Increase 1999-2012	County(ies) Population 2010 Census	% Population on Medicaid Nov. 2012
Lake/Mason	5,924	7,680	9,317	57.3%	40,244	23.2%
Lapeer	5,341	9,042	14,276	167.3%	88,319	16.2%
Lenawee	8,281	11,968	17,881	115.9%	99,892	17.9%
Livingston	4,017	7,837	15,685	290.5%	180,967	8.7%
Mackinac	1,037	1,516	1,721	66.0%	11,113	15.5%
Macomb	40,145	72,522	138,584	245.2%	840,978	16.5%
Manistee	3,036	3,843	4,717	55.4%	24,733	19.1%
Marquette	5,973	7,998	9,986	67.2%	67,077	14.9%
Mecosta	4,869	6,885	8,486	74.3%	42,798	19.8%
Midland	6,651	9,576	12,758	91.8%	83,629	15.3%
Missaukee/Wexford	6,015	8,777	11,823	96.6%	47,584	24.8%
Monroe	9,975	14,775	22,708	127.6%	152,021	14.9%
Montmorency/Oscoda	2,817	3,782	4,264	51.4%	18,405	23.2%
Muskegon	24,228	33,808	44,382	83.2%	172,188	25.8%
Newaygo	5,745	8,602	11,894	107.0%	48,460	24.5%
Oakland	60,731	86,844	145,904	140.2%	1,202,362	12.1%
Oceana	4,114	6,462	7,298	77.4%	26,570	27.5%
Ogemaw/Roscommon	7,392	9,599	11,382	54.0%	46,148	24.7%
Ontonagon	1,111	1,194	1,138	2.4%	6,780	16.8%
Osceola	3,389	4,472	5,477	61.6%	23,528	23.3%
Otsego	2,216	3,835	5,555	150.7%	24,164	23.0%
Ottawa	9,392	19,078	32,387	244.8%	263,801	12.3%
Presque Isle	1,617	1,898	2,285	41.3%	13,376	17.1%
Saginaw	32,765	38,856	46,139	40.8%	200,169	23.1%
St. Clair	13,817	21,444	31,651	129.1%	163,040	19.4%
St. Joseph	6,359	10,333	15,040	136.5%	61,295	24.5%
Sanilac	4,414	7,041	9,052	105.1%	43,114	21.0%
Tuscola	5,682	8,553	11,711	106.1%	55,729	21.0%
Van Buren	10,868	14,961	18,847	73.4%	76,258	24.7%
Washtenaw	16,384	23,977	39,451	140.8%	344,791	11.4%
Wayne	367,883	411,975	503,059	36.7%	1,820,584	27.6%
Unassigned	---	---	1,599	---		
TOTAL	**1,059,919**	**1,404,458**	**1,920,155**	**81.2%**	**9,883,640**	**19.4%**
By Region						
Southeast	512,952	639,374	897,042	74.9%	4,704,743	19.1%
South Central	81,344	114,980	162,589	99.9%	799,848	20.3%
Southwest	39,231	50,369	63,391	61.6%	285,364	22.2%
Mid-Michigan	121,983	161,379	215,969	77.0%	1,107,966	19.5%
Central Michigan	98,040	128,768	159,481	62.7%	780,869	20.4%
West Michigan	125,184	199,365	282,372	125.6%	1,458,866	19.4%
NE Michigan	17,908	24,050	29,095	62.5%	136,711	21.3%
NW Michigan	26,638	39,860	54,942	106.3%	297,912	18.4%
Upper Peninsula	36,639	46,313	53,675	46.5%	311,361	17.2%
I-75 Corridor	539,612	636,003	819,208	51.8%	3,756,676	21.8%

Sources: Department of Human Services "Green Book" and United States Census

Largest and Smallest Growth by County

Table 2 presents the five counties with the smallest percentage growth in Medicaid enrollment from 1999 to 2012. Three of the five are in the Upper Peninsula, one is in the northeast portion of the Lower Peninsula, and the other is Wayne County. While Wayne County would appear to have little in common with the other counties on the list, each represents an area that had a high percentage of its population on Medicaid in 1999, relative to the rest of the State. It appears that these counties, for lack of a better term, were more "saturated" with Medicaid cases than other parts of the State.

Table 2

Counties with the Smallest Growth in Medicaid Enrollment, 1999-2012

	Enrollment Apr. 1999	Enrollment Oct. 2004	Enrollment Nov. 2012	% Increase 1999-2012	2010 County(ies) Population	% of Population on Medicaid Nov. 2012
Ontonagon	1,111	1,194	1,138	2.4%	6,780	16.8%
Alger/Schoolcraft	2,500	2,852	3,115	24.6%	18,086	17.2%
Alcona	1,444	1,701	1,843	27.6%	10,942	16.8%
Gogebic	2,590	2,889	3,346	29.2%	16,427	20.4%
Wayne	367,883	411,975	503,059	36.7%	1,820,584	27.6%

Table 3 presents the five counties with the greatest percentage growth in Medicaid enrollment from 1999 to 2012. These counties present almost an opposite picture to the five with the smallest growth. The counties shown in Table 3, in 1999, had a very low percentage of their population on Medicaid. It also must be noted that these counties continue to have a lower-than-average percentage of their population on Medicaid. While Medicaid enrollment nearly quadrupled in Livingston County (and population growth was a factor in that enrollment growth), Livingston County still has the lowest percentage of individuals on Medicaid of any county in the State.

Table 3

Counties with the Largest Growth in Medicaid Enrollment, 1999-2012

	Enrollment Apr. 1999	Enrollment Oct. 2004	Enrollment Nov. 2012	% Increase 1999-2012	2010 County(ies) Population	% of Population on Medicaid Nov. 2012
Livingston	4,017	7,837	15,685	290.5%	180,967	8.7%
Macomb	40,145	72,522	13,8584	245.2%	840,978	16.5%
Ottawa	9,392	19,078	32,387	244.8%	263,801	12.3%
Allegan	6,830	13,134	19,298	182.5%	111,408	17.3%
Lapeer	5,341	9,042	14,276	167.3%	88,319	16.2%

Regional Growth

When one looks at the enrollment growth by geographic region, one sees some similar disparities. Enrollment growth was the smallest in the Upper Peninsula, at just 46.5%, but was 125.6% in west Michigan.

One might assume that this meant that the economy was that much weaker in west Michigan than elsewhere, but this does not appear to be the case. Instead, the more relevant factor is the percentage of the population on Medicaid. In spite of the many differences among regions in the

State, the percentage of the population enrolled in Medicaid, by region, is in a narrow band, between 17.2% and 22.2%. Regions in 1999 that had the highest Medicaid participation rate have seen much slower enrollment growth compared with the regions that had the lowest participation rate in 1999.

West and northwest Michigan had the lowest participation rates, as a percentage of population, in 1999, and those were the two regions that saw the largest enrollment growth. Meanwhile, southwest and northeast Michigan had the largest participation rates, as a percentage of population, in 1999, and those regions had the slowest enrollment growth outside of the Upper Peninsula. As noted above, it appears that some areas were more saturated with Medicaid cases than others and saw slower growth rates.

The I-75 Corridor (defined as Bay, Genesee, Oakland, Saginaw, and Wayne Counties) is an interesting subset. There has been a perception that this group of counties is the locus of most of the growth in demand for human services. In reality, while the corridor has a higher-than- average percentage of its population enrolled in Medicaid, enrollment growth was 51.8% from 1999 to 2012, well below the 81.2% growth statewide.

Conclusion

Medicaid enrollment has continued to soar in Michigan, climbing from under 1.1 million in 1999 to over 1.9 million in 2012. While enrollment growth has recently flattened, the increased costs associated with the last decade of growth have increased pressures on the State's budget.

The growth has occurred throughout the State, but enrollment growth has been more rapid in areas that had lower-than-average enrollments in 1999. As such, Medicaid should be understood to have grown in all counties and regions, not just in large urban counties. Because of this growth and increased "saturation" of cases, the Medicaid program has become a major payer for health care services throughout the State of Michigan.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Winter 2013

The Competitive Grant Assistance Program: First-Year Awards
By Elizabeth Pratt, Fiscal Analyst

In fiscal year (FY) 2011-12, enacted legislation changed the revenue sharing program to provide for the use of State funding to drive implementation of specific reforms in local government operations. Two new State programs were created: the Competitive Grant Assistance Program (CGAP) and the Economic Vitality Incentive Program (EVIP). For cities, villages, and townships, instead of the formula distributions previously known as statutory revenue sharing, the new EVIP makes payments to an eligible local unit of government based on its certification of compliance with the requirements of three incentive categories: accountability and transparency, consolidation of services, and employee compensation. The Competitive Grant Assistance Program was created in conjunction with EVIP to award grants to selected cities, villages, townships, and counties to "…offset the costs associated with mergers, interlocal agreements, and cooperative efforts for those cities, villages, townships, and counties that elect to combine government operations".[1]

Public Act (P.A.) 63 of 2011 provided initial funding of $5.0 million for the grant program as a boilerplate allocation from the appropriation for EVIP. Public Act 236 of 2012 appropriated an additional $10.0 million for CGAP, to increase funding to $15.0 million in FY 2011-12, with the requirement that $5.0 million be used for grants to local units of government that elected to combine public safety operations. Like the other revenue sharing appropriations, CGAP is funded with State Restricted sales tax revenue. The Department of Treasury administers the Competitive Grant Assistance Program, which includes developing policies, applications, and program criteria in accordance with boilerplate requirements and selecting grantees. Funding is distributed monthly on a reimbursement basis. Grant recipients are required to submit quarterly progress reports and a final report when a project is completed.

The FY 2011-12 funds were awarded in two rounds. The first grant of $550,000 was awarded in October 2011 to the Cities of Grand Rapids, Flint, and Lansing for combined local income tax processing. Remaining first-round grants were announced on January 20, 2012. Overall, the first round included 28 awards that totaled $4,320,823. The second round of grants was announced on October 23, 2012. The second round consisted of 32 awards totaling $10,551,257.

A wide variety of projects received funding in FY 2011-12. Fourteen grants for a total of $324,770 were awarded for feasibility studies or planning projects to assess opportunities for many types of shared services, including parks, recreation, wastewater treatment, police, fire, and public safety access points. Nine grants totaling nearly $2.9 million were awarded for consolidation of radio dispatch or 911 services. Another 11 grants totaling $2.5 million were awarded for consolidation of fire services between local units or consolidation of police and fire services. The grant awards for FY 2011-12 are listed in Table 1.

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[1] Public Act 63 of 2011, Article VIII, Sec. 951; Public Act 278 of 2011, Sec. 402; and Public Act 107 of 2012, Sec. 402.

The largest grant, $3.6 million (24.2% of all grants), was awarded to Grand Rapids in conjunction with the Michigan Municipal Services Authority (MMSA) to develop financial management software tools that can be offered to other local units of government, a project initially proposed by State Treasurer Andy Dillon. This is intended to make best practices in financial management available to interested local units of government that may not have access to such tools or resources to acquire them independently. The proposed systems would operate in a cloud-computing environment to increase accessibility and reduce costs. The MMSA was created by an interlocal agreement between Grand Rapids and Livonia, and then approved by the Governor on August 24, 2012, under his authority pursuant to the Urban Cooperation Act. The MMSA is a structure that can facilitate the operation of the financial management information systems and other shared services projects.

In FY 2012-13, CGAP was continued with funding of $15.0 million. Eligibility for the program was expanded to include projects conducted in conjunction with a school district or intermediate school district. The application period for FY 2012-13 awards closed December 3, 2012. The Department of Treasury received 62 applications for a total of approximately $52.0 million, indicating a high demand for these funds. The FY 2012-13 awards will be selected and announced by the Department of Treasury.

Table 1

FY 2011-12
AWARDS FROM THE COMPETITIVE GRANT ASSISTANCE PROGRAM

Local Unit	Project	Round 1 Awards	Round 2 Awards
Arcadia Township	Strategy Regional Master Plan and Implementation	$157,000	---
Calumet Township	Creation of North Houghton County Fire District	23,000	---
Comstock Township	Kalamazoo Area Building Authority	78,657	---
Dearborn	Feasibility Study - Tax Administration Services	25,000	---
Dearborn	Consolidate IT Services with City of Dearborn Heights	---	263,000
Dearborn Heights	Consolidate Fire Department Services with City of Garden City	---	43,500
Delta County	Collaborate with 16 Local Units on Tax Assessment Database	---	332,165
Delta Charter Township	Delta Township - Looking Glass Regional Fire Authority Consolidation	180,000	---
Delta Charter Township	Delta Township - Looking Glass Regional Fire Authority Consolidation	---	30,000
DeWitt	Consolidation of Building Inspection with Dewitt and Bath Townships	---	16,250
Douglas	Kalamazoo Harbor Authority	38,008	
Emmet County	Integrate Charlevoix-Cheboygan-Emmet County with State Dispatch Radio System	---	80,000
Farmington Hills	Combined Public Safety and Jail Project	148,250	---
Farmington Hills	Consolidate IT Services with City of Farmington	---	130,000
Fremont	Joint Planning Commission - Zoning Ordinance Review	6,985	---
Gaastra	Gaastra/Caspian Consolidation (Fire and Police)	32,000	---
Grand Haven	IT and Assessing Services Via Inter-local Agreements	47,499	---
Grand Haven	Conduct Feasibility Study of Telephone Service Delivery	---	18,750
Grand Rapids	Combine Income Tax Processing and Payment Systems with Flint and Lansing	550,000	---
Grand Rapids	Collaborate with Mich. Municipal Services Authority to Develop Cloud-Computing Environment	---	3,600,000
Grosse Pointe	Public Safety Department Consolidation Study	20,000	---
Grosse Pointe	All Grosse Pointe Dispatch Consolidation	300,000	---
Harper Woods	Cross-Train Police Officers as Fire Fighters	---	62,900
Huron Township	Consolidate 911 and Detention Facilities with Sumpter Township	---	202,386
Kalamazoo County	Public Safety Answering Point (PSAP) Consolidation Project Study	20,000	---
Kent County	Multijurisdictional Parks and Recreation Study	37,500	---
Kent County	Conduct Study on Community Development Program to Reduce Costs	---	40,000
Lansing	Retain Consultant to Establish Platform for Collaboration with Neighboring Cities and Townships	---	75,000
Leslie	Develop Shared Master Plan with Leslie Township	---	30,000
Lyon Township	Conduct Study on Benefits of Collaboration on Wastewater Treatment Facility	---	51,500
Macomb County	Consolidate Dispatch and Communications Operations	---	1,505,000

FY 2011-12
AWARDS FROM THE COMPETITIVE GRANT ASSISTANCE PROGRAM

Local Unit	Project	Round 1 Awards	Round 2 Awards
Marquette	Collaborate with Marquette and Chocalay Townships on Recreation Authority Business Plan	---	12,500
Marshall	Shared Police Facility Feasibility Study	21,146	---
Marshall	Collaborate with Michigan State Police to Share Services and Facilities	---	674,254
Monroe	Cross-Training Police and Fire and Create Joint Public Safety Department	---	49,000
Oakland County	Collaborate to Maximize Usage of City of Pontiac's Wastewater Treatment Plant	---	22,320
Onekama Township	Disincorporation of Village of Onekama and Merger with Township	355,365	---
Ottawa County	Holland Zeeland Service Sharing Initiative	14,804	---
Pontiac	Consolidate Fire Services with Waterford Township	---	248,742
Pleasant Ridge	Pleasant Ridge/Berkley Public Safety Merger	132,250	
Port Huron	Collaborate with City of Marysville to Standardize and Combine Fire Records Systems	---	20,985
River Rouge	River Rouge/Ecorse Public Safety Department Project	647,609	---
Roseville	Consolidate with City of Eastpointe to Create a Recreation Authority	---	342,000
Roseville	Conduct Feasibility Study on Use of Water Reservoir with Cities of Fraser and Eastpointe	---	20,000
Saginaw	Regional Fire Collaboration Project Study	12,500	---
Saginaw	Consolidate Law Enforcement with Saginaw County	---	156,266
Saginaw County	Consolidate Records, Data, Information and Intelligence with Other Sheriff Offices	---	881,944
St. Joseph	Consolidate 911 Services with Berrien County	---	199,508
Southgate	Allen Park/Lincoln Park/Southgate/Wyandotte Animal Control Services Consolidation	235,000	---
Southgate	Consolidate Assessing and Equalization Services with Allen Park/Lincoln Park/Woodhaven	---	25,000
Stockbridge	Municipal Building and Middle School Facility Sharing	3,250	---
Trenton	Trenton/Riverview Combined Dispatch Center and Prisoner Lockup Facility	239,750	---
Wakefield	Consolidation of Collection Service, Transportation and Disposal of Waste	241,500	---
Washtenaw County	Washtenaw Metro Dispatch	177,500	---
Washtenaw County	Continue Consolidation of 911 Services with City of Ann Arbor	---	35,000
Waterford Township	Waterford/Pontiac Fire Services Consolidation	567,500	---
Watervliet Township	Consolidate Water Department with City of Watervliet	---	287,500
Wayne County	Collaborate with Multiple Agencies on Interagency Initiative to Reduce Gun Violence	---	304,000
Westland	District Court Consol. (Dearborn Heights/Garden City/Inkster/Wayne/Westland)	8,750	---
Westland	Consolidate Fire Department Services with City of Wayne	---	791,787
TOTAL		**$4,320,823**	**$10,551,257**

Source: Department of Treasury

State Notes

TOPICS OF LEGISLATIVE INTEREST

Winter 2013

Personal Property Tax Reform Legislation
By David Zin, Chief Economist

On December 27, 2012, the Governor signed Public Acts (PAs) 397 through 404 of 2012, as well as PAs 406, 407, and 408. Public Acts 397 through 403 reduce property taxes levied on personal property, while PAs 404, 406, 407, and 408 provide mechanisms to potentially replace a portion of the lost tax revenue. This article will summarize these public acts, including the estimated fiscal impact on both the State and local units.

Background

Generally, personal property is property that is not affixed to a structure, such as machinery, equipment, and furniture. Personal property is classified for assessment purposes as being industrial, commercial, or utility. Statewide, personal property comprises a small share of total taxable value. In 2012, the taxable value of commercial personal property totaled approximately $9.3 billion (2.9% of total taxable value in Michigan), while industrial personal property totaled approximately $11.2 billion (3.5% of total taxable value in Michigan). Furthermore, the value of personal property remains fairly stable over time, meaning that most of the year-to-year growth in the tax base reflects growing values for real property (land and structures). One reason for this stability is that the taxable value of personal property is usually a function of the purchase price less depreciation, as determined by tables issued by the State Tax Commission, and the constitutional cap on the annual growth in taxable values. In contrast, the taxable value of real property is largely determined by current market values (again, subject to the constitutional cap on the annual growth in taxable value).

While industrial and commercial personal property represents a small portion of the tax base for most taxing jurisdictions, in some local units the total value of industrial and commercial personal property can represent a significant portion, if not a majority, of the tax base. In September 2011, the Senate Fiscal Agency (SFA) issued a report that analyzed the impact of personal property taxes on individual local units. That report is available on the SFA website at http://www.senate.michigan.gov/sfa/Publications/Issues/PersonalPropertyTaxes/PersonalPropertyTaxes.pdf.

The history of personal property taxes extends back as far as the history of general property taxes. Not only did property taxation make it easy to allocate the tax base to the "appropriate" local unit, but the tax base represented a largely visible and mostly immobile taxable item that also could easily be taxed if owned by nonresidents. The appeal of these characteristics largely reflected the difficulty of tracking income and the significantly agrarian nature of the economy that existed when most states adopted their property taxes. However, the tax on personal property is widely viewed as a tax on investment, and investment is generally regarded as essential to increasing productivity and promoting economic growth. Businesses also have become more mobile over time, and when combined with business income taxes (which are also regarded as taxes on capital and investment), various exemptions and abatements for personal property taxes have become part of the basis by which states compete for business activity. Many of the states in the Great Lakes area, as well as several major manufacturing states in the middle-Atlantic region, have eliminated their personal property taxes.

Property Tax Reductions

Public Acts 401, 402, and 403 of 2012 reduce property taxes on different types of personal property depending on several factors. Property taxes on utility personal property are not affected by the legislation. Public Acts 397 through 400 make complementary adjustments associated with PA 198 tax abatements (for industrial development in designated districts), abatements associated with technology parks, locally granted abatements, and enterprise zone abatements.

Public Act 402 exempts all commercial and industrial personal property owned by a single taxpayer and contained within a local tax collecting unit, if the total value of the industrial and commercial personal property is less than $40,000. The exemption is not based on the value of each individual piece of personal property, nor is it based on the total value of all personal property within the State. As a result, a taxpayer could have a chain of 10 stores, each with $35,000 of personal property at its location, but located in 10 different tax collecting units. Although the taxpayer's total personal property would have a taxable value of $350,000, all of the property would be exempt because within each tax collecting unit, the taxable value of the property was less than $40,000. Taxpayers must file a form each year, by February 20, in order to receive the exemption. The exemption is available beginning December 31, 2013 (for taxes that would be assessed during 2014).

Similarly, PA 401 and PA 403 eliminate personal property taxes on industrial and commercial personal property if the property meets the definition of "eligible manufacturing personal property"--which is essentially property that is used at least 50% of the time in industrial processing or direct integrated support of industrial processing. Virtually all industrial personal property is likely to meet the definition, while a portion of commercial personal property is expected to meet the definition of providing direct integrated support of industrial processing. The definition of "eligible manufacturing personal property" is not related to classifications currently used for assessment purposes, such as industrial or commercial. Instead, the definition is based on the use of the personal property. The use criteria are somewhat similar to the requirements for property that would qualify for the industrial processing exemption under the Michigan's sales and use taxes, although the legislation does not replicate or refer to that language.

Public Acts 401 and 403 will eliminate taxes on affected personal property over a period of years. Under PA 401, beginning December 31, 2015 (for taxes that would be assessed in 2016), eligible manufacturing personal property will be exempt if it was acquired after 2012. Under PA 403, eligible manufacturing personal property will be exempt, beginning December 31, 2015, if it has been subject to taxation for at least 10 years, meaning that property acquired before 2006 will be exempt. The 2006 date will advance each year after 2016, so when PA 401 and PA 403 are combined, all eligible manufacturing personal property will be exempt from property taxes by 2023. As a result, local units will initially receive less property tax revenue beginning in 2014 (due to changes under PA 402) but the loss will increase substantially in 2016 and then continue to grow through 2023 (due to PAs 401 and 403).

Local Unit Reimbursement

Public Acts 404, 406, 407, and 408 provide various mechanisms to potentially replace a portion of revenue lost as a result of PAs 397 through 403. Not all losses experienced by a taxing authority are eligible for reimbursement and the formulas to compute and/or distribute reimbursements will change over time. Furthermore, eligibility for reimbursements will change over time, both as distribution formulas are modified and as the taxable values within local units change.

Public Act 406 of 2012 allows local units, without a vote of the people, to levy, beginning January 1, 2016, a special assessment to cover all or part of the cost of acquiring and/or maintaining equipment used to provide essential services, or all or the part of the cost of providing essential services. Essential services are limited to ambulance services, fire services, police services, and jail operations. If imposed by the local unit, the assessment will be levied on parcels of real industrial and commercial property within the local unit on which exempt eligible manufacturing property is located. Losses due to the exemption of commercial and industrial property valued at less than $40,000 may not be included in calculating the assessment.

Beginning October 1, 2014, PA 404 of 2012 transfers duties currently handled by the Metropolitan Extension Telecommunications Rights-of-Way Oversight Authority to a Metropolitan Areas Metropolitan Authority (MAMA) created under PA 407 of 2012. While the MAMA will handle these duties, the primary function of the new Authority will be to levy a local use tax authorized under PA 408 and to distribute the revenue to local units. Reimbursements to local units will be determined by formulas within the Act but will not reimburse revenue lost from the $40,000 exemption or amounts that could be raised by the essential services assessment (whether or not the assessment is actually levied). Reimbursements also will not be made to local units that increase their debt mills to offset revenue losses as a result of the exemptions in PAs 401, 402, and 403. During FY 2015-16 and FY 2016-17, reimbursements will not be made to local units where the value of those exemptions lowered the taxable value in the unit by 2.3% or less, unless the unit is a community college. The MAMA also will distribute any appropriations made to the Authority during fiscal year (FY) 2013-14 or FY 2014-15 to offset revenue losses associated with mills levied to repay debts incurred prior to 2013. While the Act requires the Legislature to make these appropriations, the requirement is not considered legally binding.

The distribution formulas for reimbursements under PA 407 change over time. During FY 2013-14 and FY 2014-15, the MAMA will reimburse losses associated with debt mills only. The Act does not specify a revenue source for these reimbursements. Due to the nature of the exemptions, these reimbursements will reflect only the cost of the $40,000 exemption under PA 402. These reimbursements, which will not include reimbursements for sinking fund mills, are estimated to total approximately $12.5 million per year.

During FY 2015-16 and FY 2016-17, distributions under PA 407 will first be made to offset losses associated with school debt mills, school operating losses not reimbursed by the School Aid Fund, and losses experienced by intermediate school districts (ISDs). From any remaining revenue, distributions will be made to "qualified" local units according to each local unit's losses relative to the total loss from all qualified local units. A qualified local unit is a local unit where the value of the exemptions under PAs 401, 402, and 403 lowered the taxable value in the unit by more than 2.3%, or a community college. Thus, a qualified local unit with revenue losses that represented 3.0% of the losses of all qualified units would receive 3.0% of the revenue remaining after the distributions had been made for losses associated with school debt mills, school operating losses not reimbursed by the School Aid Fund, and losses experienced by ISDs.

In FY 2017-18, the distribution formula under PA 407 changes again. Distributions continue to be made first for losses associated with school debt mills, school operating losses not reimbursed by the School Aid Fund, and losses experienced by ISDs. After that distribution, however, a new formula requires that 5% of the remaining amount be distributed according to the taxable value of industrial real property in which personal property exempt under PAs 401, 402, and 403 is located within each local unit, relative to the total taxable value of all industrial real property in the State on which personal property exempt under PAs 401 and 403 is located. Losses associated with the $40,000 exemption under PA 402 are not included in this new distribution formula. The 5% increment increases another 5% each year after FY 2017-18, so by FY 2036-37, all of the money will be distributed under the new formula. Additionally, under the new formula, local units do not need to be "qualified" local units (experienced a 2.3% reduction in taxable value due to the exemptions) in order to receive distributions. After the distribution under the new formula, any remaining revenue is distributed according to the relative losses formula described in the previous paragraph, for distributions during FY 2015-16 and FY 2016-17.

A truncated summary of the impact of both the property tax exemptions and potential reimbursements is provided in Table 1.

Table 1

Preliminary Impact of Personal Property Tax Reform Legislation

			Calendar Year			
	2014	**2015**	**2016**	**2017**	**.........**	**2018**
Calendar Year Revenue Losses						
State Education Tax and Local School Mills	$19.9	$20.0	$44.7	$45.0	....	$47.9
Local Government	$55.1	$55.4	$425.0	$450.9	....	$583.6
Total Calendar Year Losses	**$75.0**	**$75.4**	**$469.7**	**$495.9**	**..........**	**$631.5**
			Fiscal Year			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**..........**	**2022-23**
Fiscal Year Reimbursement Distributions						
Total Fiscal Year Losses	$13.1	$32.5	$121.6	$475.3	....	$604.8
From: State Education Tax and Local School Mills	$9.9	$19.9	$32.3	$44.8	....	$47.7
State Reimbursement to Local Units (Debt mills)	$3.2	$12.6	N/A	N/A	....	N/A
Essential Services Assessment	N/A	N/A	$10.7	$68.9	....	$92.3
State Reimbursement to School Aid Fund	N/A	N/A	$32.3	$44.8	....	$47.7
State Reimbursement to Local Units (Use Tax)	N/A	N/A	$41.7	$257.5	....	$362.4
Total Reimbursements	**$3.2**	**$12.6**	**$84.7**	**$371.2**	**.........**	**$502.4**
Average Percent Reimbursed	24.6%	38.8%	69.7%	78.1%	....	83.1%

As a result of the changes in the formulas, some local units may not qualify for any distributions in FY 2015-16 or FY 2016-17, but will receive distributions in FY 2017-18. Similarly, because the calculation for determining whether a local unit is qualified will be significantly affected by the growth in taxable value for real property, it is likely that a number of local units will initially meet the criteria to be a qualified local unit but will cease to be qualified as their tax base grows. Finally, both distribution formulas (relative losses for qualified units and relative value of industrial property) allocate revenue based on the local unit's share of some statewide total, regardless of the relative magnitude of those losses to the local unit's tax base or total revenue.

Local Use Tax Ballot Issue

As required by PA 408, the August 2014 statewide ballot will include the question of whether to approve a local use tax levy by the MAMA. If approved, the State's 6.0% use tax rate will be lowered by the amount of the use tax levied by the MAMA. The rate of the use tax levied by the MAMA will be determined by the amount of revenue that the tax may generate. The revenue from the MAMA's use tax will be limited to amounts specified in the Act, which, as shown in Table 2, will total $41.7 million in FY 2015-16, increase to $257.5 million in FY 2016-17, and then rise by approximately $15.0 million to $20.0 million per year through FY 2022-23, when the total will reach $362.4 million. In fiscal years after 2022-23, the amount will increase by an industrial and personal property growth factor. Revenue from the local use tax is required to be solely, and completely, spent on reimbursements to local units eligible for distributions under PA 407. The revenue from the local use tax will reduce the State's share of use tax revenue that is directed to the General Fund. Public Act 408 also earmarks to the School Aid Fund (SAF), from the portion of the State's use tax collections that would otherwise be deposited into the General Fund, an amount equal to any lost revenue under the State Education Tax or basic school operating mills as a result of the exemptions created by PAs 401, 402, and 403, as shown in Table 2.

Table 2

Preliminary Budget Impact of Personal Property Tax Reform Legislation

	Fiscal Year					
	2013-14	**2014-15**	**2015-16**	**2016-17**	**..........**	**2022-23**
Reimbursements from General Fund						
Debt Mill Reimbursements[1)]	$3.2	$12.6	N/A	N/A	....	N/A
State Reimbursement to School Aid Fund	N/A	N/A	$32.3	$44.8	....	$47.7
Use Tax Revenue to Reimburse Local Units	N/A	N/A	$41.7	$257.5	....	$362.4
Total Reduction in General Fund Revenue	$3.2	$12.6	$74.0	$302.3	....	$410.1
SAF Losses Not Reimbursed Under Legislation[2)]	9.9	19.9	N/A	N/A	....	NA
Total Budget Impact	$13.1	$32.5	$74.0	$302.3		$410.1

1) Public Act 408 requires these reimbursements, but does not specify that they must be paid from General Fund revenue.
2) Includes both losses under the State Education Tax and local school operating mill losses.

If the ballot issue in PA 408 is approved, local units will not receive any reimbursements or replacement revenue for any revenue losses other than those associated with school debt mills, until FY 2015-16. For FY 2015-16 and later years, many local units will not receive reimbursements from the MAMA due to the conditions in PA 407, and most local units are unlikely to receive reimbursements from the MAMA that will fully replace revenue lost under the exemptions.

If the ballot issue in PA 408 is not approved, PA 407 will still require the Legislature to appropriate revenue during FY 2013-14 and FY 2014-15 to offset losses associated with debt mills. However, the property tax exemptions under PA 402 will be repealed for future years, and the other exemptions will not become effective. Similarly, none of the provisions under PAs 404, 406, 407 (except the appropriation requirement), or 408 will become effective.

Conclusion

Assuming the ballot measure passes and both the exemption provisions and reimbursement mechanisms are effective, the legislation is likely to have a significant impact on the State budget. With the exception of replacement revenue generated from the essential services assessment, all other revenue associated with reimbursing either the School Aid Fund or distributions to local units (including the local use tax revenue received by the MAMA) will reduce State General Fund revenue. As a result, General Fund revenue is expected to be reduced by approximately $3.2 million in FY 2013-14 and $12.6 million in FY 2014-15. The reduction in General Fund revenue will increase to approximately $74.0 million in FY 2015-16 and $302.3 million in FY 2016-17. By FY 2022-23, the expected reduction in General Fund revenue will exceed $410.1 million per year. Because losses to the School Aid Fund, from State Education Tax revenue and higher expenditure requirements if per-pupil funding amounts are to be maintained, are not reimbursed in FY 2013-14 and FY 2014-15, the budget impact in those years is greater than the impact on the General Fund. Legislators likely will face decisions on how to address the impact of these changes on the General Fund and School Aid Fund budgets.